

Jeremy Herb, *Star Tribune*

By the narrowest of margins, the House voted on Wednesday to head home for the midterm elections without voting on whether to extend the Bush-era tax cuts.

Unless the cuts are extended, taxes will rise back to 2001 levels on Jan. 1. That could trigger an average tax increase of \$1,653 per household in Minnesota, according to some estimates.

Both the Republicans and the Democrats say they want to avoid that, but they have become enmeshed in a game of chicken, with Republicans insisting that the cuts should be extended for all while Democrats argue that the wealthiest 2 percent of wage-earners should pay more.

In Minnesota, more than 90,000 people fall into that category and could wind up with vastly larger tax bills. A household earning more than \$325,000 could pay an extra \$5,400, while a couple earning more than \$1 million could see their federal taxes jump by \$56,300.

The debate over who should be shielded from the higher rates now becomes a front-and-center issue in campaigns across the country, with both sides prepared to stare one another down.

Even a typically mundane vote on adjournment became a clash of wills, with 39 Democrats joining Republicans to split the House. Speaker Nancy Pelosi, D-Calif., cast the tie-breaking vote.

"I don't think Congress should adjourn before the election until the tax cuts are extended," said Rep. Erik Paulsen, R-Minn. "It would be a big mistake for the Democratic leadership not to have the vote prior to the election."

But Rep. Tim Walz, a Minnesota Democrat who supports letting the tax cuts expire for the wealthy, said he wants a debate on the issue.

"The tax cuts for those top 2 percent simply did not do what they were supposed to," said Walz, the most vulnerable Minnesota Democratic incumbent. "They did not create jobs, they did not

trickle down, and they simply drove the debt up and caused problems."

The debate hovers over an all-important entity in politics these days: small businesses. Republicans say that small business owners will be harmed if their taxes are raised and could cause them to recoil from making new hires.

"Every small and large businessman and woman that I've been talking to all summer as the debate is heating up says no tax increases," said Rep. John Kline, a Minnesota Republican who wants to make the tax cuts permanent. "They do not know what their tax burden is going to be, and they're afraid."

With unemployment at 9.6 percent nationally, Republicans say that small businesses are going to be the ones who start hiring again and that they can't afford to be hesitant because of tax increases.

Democrats argue that small business owners fall mostly in the middle class and won't be harmed if tax cuts for the wealthiest are allowed to expire -- a move that would bring in \$700 billion in revenue.

"We shouldn't be racking up another \$700 billion in debt to give a small percent of Americans an extra tax cut," said Rep. Betty McCollum, D-Minn.

Roberton Williams, senior fellow at the Tax Policy Center, a tax research organization, said that only 3 percent of small business owners fall into the top category, according to an analysis of income tax returns. But those 3 percent also account for 40 to 50 percent of total small business income reported.

"The question is how firms respond to a tax cut," Williams said. "Do they put it in the bank or do they expand?"

No deal imminent

President Obama has called for the tax cuts for the wealthiest to expire, a campaign pledge he made in 2008.

But the recession and high unemployment rate have changed the debate, said Clint Stretch, managing principal of tax policy at Deloitte, an international accounting and consulting firm.

"Were the economy doing well and unemployment coming down, this debate would not be tolerated by the Democrats," Stretch said. "But there is legitimate concern that they might do something that stifles economic recovery."

More than 30 House Democrats wrote a letter to Pelosi urging her to temporarily extend the tax cuts for everyone -- including the wealthy -- until the economy improves.